

## Holding steady...

ITC clocked in-line performance despite continued macro challenges. ITC's performance was in sync with other FMCG companies. ITC-Cig/ITC-FMCG growth was at 5/6% vs. HUL/Dabur/Colgate/Marico posted domestic growth of 4/6/4/-1% in 3QFY20. ITC's cig/FMCG performance was very much comparable to other FMCG cos for the past many quarters. Despite that, stock has de-rated over the last 12 months. We believe de-rating is unwarranted when the co is consistently showing quality earnings. We value ITC on SoTP basis (link to table) and arrive at a TP of Rs 360 (implied P/E of 25x). Maintain BUY.

### HIGHLIGHTS OF THE QUARTER

- Cig. val/vol growth was 5/2% (10/5.5% in FY19, 10/7.5% in 3QFY19) was in-line with estimates. 8<sup>th</sup> consecutive quarter of positive volume growth vs. -4% CAGR over FY12-18. Volume growth moderated vs. FY19 owing to heavier base and impact from slowdown.
- Cig. EBIT grew by 6% (6.5% CAGR over FY15-19) vs. exp. of 8% growth. Cig. EBIT margins expanded by 60bps owing to (1) Gradual price hikes (~3%) and (2) Higher in-house manufacturing of capsule cig. Capsule cig is driving the growth for ITC and industry, it contributes 13% mix for ITC. Margin pressure was the key concern on the street in FY19 that has reversed in 9MFY20 (100bps expansion). We model 7% cig EBIT CAGR over FY20-22E.
- Non-cig business grew by 7% (est 9%. FMCG biz growth of

6% was in-line with our estimates. FMCG posted EBITDA growth of 48% with EBITDA margin of 7.7%. Hotels/Agri/Paper revenue grew by 22/9/1% with EBIT growth of 45/7/1%. Non-cig EBIT grew by healthy 11% (11% average in the last 12 quarters, 7% over FY14-19).

- GM was flat at 62% while employee/other expense grew by 6%/flat resulting in 7% EBITDA growth (11% in FY19 and 7% CAGR over FY15-18). APAT (at 25% tax rate) growth was 18% to Rs 37.8bn (est Rs 37.6bn).

### STANCE

Stable taxes in FY19 accelerated cigarette volume growth to 5.5% vs. -5% CAGR during FY15-18. EBIT growth also accelerated to 9% as compared to 7% CAGR during FY15-18. Yet company could not enjoy re-rating as investors have flocked towards ITC's peers (HUL, Dabur and Britannia etc.). Rather cigarette business saw de-rating (>20% fall, based on assigning fair valuation to other segments) over the last 12-months.

We expect cig valuation will recover owing (1) Continuation of stable taxes, (2) EBIT margin expansion and (3) Pickup in rural market. We believe cigarette valuation will recover to its average of 18x EV/EBITDA (still lower than 25x for Colgate which is similar wrt market leadership, vol growth trajectory and pricing power). Other catalyst in the business is FMCG, better margin traction will also offer better value for ITC. We continue to believe that valuation discount will narrow down.

### Financial Summary (Consolidated)

YE March (Rs mn)	3QFY20	3QFY19	YoY (%)	2QFY20	QoQ (%)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	120,130	114,313	5.1	118,715	1.2	434,489	483,527	509,734	552,640	604,325
EBITDA	46,127	43,258	6.6	45,624	1.1	164,830	184,064	195,110	211,874	233,041
APAT	37,766	32,091	17.7	40,231	(6.1)	112,202	127,864	157,911	167,920	183,879
Diluted EPS (Rs)	3.1	2.6	17.6	3.3	(6.1)	9.2	10.4	12.9	13.7	15.0
P/E (x)						25.6	22.5	18.3	17.2	15.7
EV / EBITDA (x)						15.9	14.1	12.9	11.7	10.4
Core RoCE (%)						37.2	39.2	45.8	47.9	50.5

Source: Company, HDFC sec Inst Research

INDUSTRY	FMCG
<b>CMP (as on 31 Jan 2020)</b>	<b>Rs 235</b>
<b>Target Price</b>	<b>Rs 360</b>
Nifty	11,962
Sensex	40,723

### KEY STOCK DATA

Bloomberg	ITC IN
No. of Shares (mn)	12,292
MCap (Rs bn) / (\$ mn)	2,890/40,485
6m avg traded value (Rs mn)	3,347

### STOCK PERFORMANCE (%)

52 Week high / low	Rs 310/231		
	3M	6M	12M
Absolute (%)	(8.7)	(13.0)	(15.6)
Relative (%)	(10.2)	(21.6)	(27.9)

### SHAREHOLDING PATTERN (%)

	Sep-19	Dec-19
Promoters	0	0
FIs & Local MFs	42.45	42.58
FPIs	15.64	15.18
Public & Others	41.89	42.24
Pledged Shares	0.00	0.00

Source : BSE

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**Net revenues grew by 5% (exp of 7%) as cig. revenue growth was steady at 5% despite consumption slowdown and floods**

**Cigarette volumes grew by ~2% (exp 2.5%; 7.5% in 3QFY19 and 3% in 2QFY20)**

**FMCG business grew by 4.2% driven by packaged foods and personal care products**

**EBITDA growth of 6.6% was below our exp of 9.2%**

**APAT (at 25% tax) growth of 17% was in line with our expectation**

### Quarterly Financials (Standalone)

Year to March (Rs mn)	3QFY20	3QFY19	YoY (%)	2QFY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
<b>Net Revenue</b>	<b>119,122</b>	<b>113,402</b>	<b>5.0</b>	<b>117,502</b>	<b>1.4</b>	<b>350,237</b>	<b>331,573</b>	<b>5.6</b>
Other operating revenue	1,009	911	10.7	1,213	(16.9)	3,636	4,211	(13.6)
<b>Total Revenue</b>	<b>120,130</b>	<b>114,313</b>	<b>5.1</b>	<b>118,715</b>	<b>1.2</b>	<b>353,873</b>	<b>335,784</b>	<b>5.4</b>
Material Expenses	45,465	43,005	5.7	44,817	1.4	131,681	126,896	3.8
Employee Expenses	6,691	6,292	6.3	6,323	5.8	19,917	19,685	1.2
Other Operating Expenses	21,847	21,758	0.4	21,951	(0.5)	64,868	61,865	4.9
<b>EBITDA</b>	<b>46,127</b>	<b>43,258</b>	<b>6.6</b>	<b>45,624</b>	<b>1.1</b>	<b>137,407</b>	<b>127,339</b>	<b>7.9</b>
Depreciation	4,162	3,354	24.1	3,957	5.2	11,708	9,615	21.8
<b>EBIT</b>	<b>41,965</b>	<b>39,904</b>	<b>5.2</b>	<b>41,667</b>	<b>0.7</b>	<b>125,700</b>	<b>117,723</b>	<b>6.8</b>
Other Income	9,836	8,364	17.6	6,543	50.3	22,581	13,833	63.2
Interest Cost	124	56	121.7	133	(6.7)	410	265	55.0
<b>PBT before exceptional</b>	<b>51,676</b>	<b>48,212</b>	<b>7.2</b>	<b>48,077</b>	<b>7.5</b>	<b>147,871</b>	<b>134,903</b>	<b>9.6</b>
Exceptional	(1,321)	-	na	-	na	(1,321)	-	na
<b>PBT</b>	<b>50,355</b>	<b>48,212</b>	<b>4.4</b>	<b>48,077</b>	<b>4.7</b>	<b>146,550</b>	<b>134,903</b>	<b>8.6</b>
Tax	8,936	16,121	(44.6)	7,846	13.9	33,160	45,078	(26.4)
<b>RPAT</b>	<b>41,419</b>	<b>32,091</b>	<b>29.1</b>	<b>40,231</b>	<b>3.0</b>	<b>113,390</b>	<b>89,824</b>	<b>26.2</b>
Adjustment	(3,653)	-	na	-	na	(3,653)	-	na
<b>APAT</b>	<b>37,766</b>	<b>32,091</b>	<b>17.7</b>	<b>40,231</b>	<b>(6.1)</b>	<b>109,737</b>	<b>89,824</b>	<b>22.2</b>
<b>EPS</b>	<b>3.1</b>	<b>2.6</b>	<b>17.6</b>	<b>3.3</b>	<b>(6.1)</b>	<b>14.2</b>	<b>11.7</b>	<b>22.2</b>

% Of Net Revenue	3QFY20	3QFY19	YoY (bps)	2QFY20	QoQ (bps)	9MFY20	9MFY19	YoY (bps)
Material Cost	37.8	37.6	23	37.8	9	37.2	37.8	(58)
Employee Expenses	5.6	5.5	7	5.3	24	5.6	5.9	(23)
Other Expenses	18.2	19.0	(85)	18.5	(30)	18.3	18.4	(9)
EBITDA	38.4	37.8	56	38.4	(3)	38.8	37.9	91
Tax Rate	17.7	33.4	(1,569)	16.3	143	22.6	33.4	(1,079)
APAT	31.4	28.1	337	33.9	(245)	31.0	26.8	426

Source: Company, HDFC sec Inst Research

**Cigarette business grew by 5% during the quarter with ~2% volume growth. Slightly below expectation performance**

**Non-cigarette portfolio continued to show healthy growth, registered 7% growth (9% average growth in the last 12 quarters)**

**Hotel biz sustaining robust growth and posted 22% growth, EBIT margin was strong at 16%**

**Paper revenue/EBIT growth was flat**

### Quarterly Segmental (Reported)

Year to March (Rs mn)	3QFY20	3QFY19	YoY (%)	2QFY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
<b>Segmental Revenues</b>								
Cigarettes*	53,110	50,734	6.0	53,268	(0.3)	160,712	152,270	10.0
FMCG	33,123	32,010	6.5	32,883	0.7	96,607	92,314	12.6
Hotels	5,523	4,519	17.7	4,266	29.5	13,715	11,557	18.7
Agribusiness	20,947	19,246	19.3	26,475	(20.9)	83,534	72,956	14.5
Paperboards, Paper & Packaging	15,554	15,425	9.9	15,654	(0.6)	46,483	43,228	7.5
<b>Total</b>	<b>128,257</b>	<b>121,933</b>	<b>8.7</b>	<b>132,547</b>	<b>(3.2)</b>	<b>401,052</b>	<b>372,325</b>	<b>7.7</b>
Less: Inter-segment revenue	9,135	8,532	7.1	15,046	(39.3)	50,815	40,752	24.7
<b>Total</b>	<b>119,122</b>	<b>113,402</b>	<b>5.0</b>	<b>117,501</b>	<b>1.4</b>	<b>350,236</b>	<b>331,573</b>	<b>5.6</b>
<b>Segmental EBIT</b>								
Cigarettes	37,560	35,577	5.6	38,445	(2.3)	114,496	106,951	7.1
FMCG	1,076	767	40.4	905	19.0	2,761	1,852	49.1
Hotels	873	603	44.8	174	401.0	1,152	891	29.3
Agribusiness	2,134	1,988	7.4	2,494	(14.4)	6,658	6,294	5.8
Paperboards, Paper & Packaging	3,340	3,321	0.6	3,559	(6.2)	10,196	9,387	8.6
<b>Total</b>	<b>44,983</b>	<b>42,256</b>	<b>6.5</b>	<b>45,577</b>	<b>(1.3)</b>	<b>135,262</b>	<b>125,375</b>	<b>7.9</b>
Less:								
(a) Interest Cost & Bank Charges	124	56	121.7	133	(6.7)	410	586	(30.1)
(b) Other Un-allocable Expenses	(6,818)	(6,013)	13.4	(2,634)	158.9	(13,018)	(9,792)	32.9
<b>PBT</b>	<b>51,676</b>	<b>48,212</b>	<b>7.2</b>	<b>48,077</b>	<b>7.5</b>	<b>147,871</b>	<b>133,951</b>	<b>10.4</b>
<b>Capital Employed</b>								
Cigarettes	34,935	36,336	(3.9)	37,544	(6.9)	34,935	36,336	(3.9)
FMCG	68,285	61,334	11.3	73,292	(6.8)	68,285	61,334	11.3
Hotels	56,915	52,330	8.8	55,985	1.7	56,915	52,330	8.8
Agribusiness	30,496	27,012	12.9	30,564	(0.2)	30,496	27,012	12.9
Paperboards, Paper & Packaging	61,368	61,345	0.0	60,808	0.9	61,368	61,345	0.0
<b>Total</b>	<b>251,998</b>	<b>238,355</b>	<b>5.7</b>	<b>258,193</b>	<b>(2.4)</b>	<b>251,998</b>	<b>238,355</b>	<b>5.7</b>
Unallocated corporate assets	357,467	302,890	18.0	312,364	14.4	357,467	302,890	18.0
<b>Total capital employed</b>	<b>609,465</b>	<b>541,245</b>	<b>12.6</b>	<b>570,557</b>	<b>6.8</b>	<b>609,465</b>	<b>541,245</b>	<b>12.6</b>

Source: Company, HDFC sec Inst Research \*like-to-like revenue growth for FY19

***Cig EBIT margins expanded owing to higher mix of capsule cigarettes***

***FMCG EBIT margin expansion was driven by enhanced scale, product mix enrichment and cost management initiatives notwithstanding higher investments in brand building and gestation costs of new categories***

### EBIT Margin (Reported)

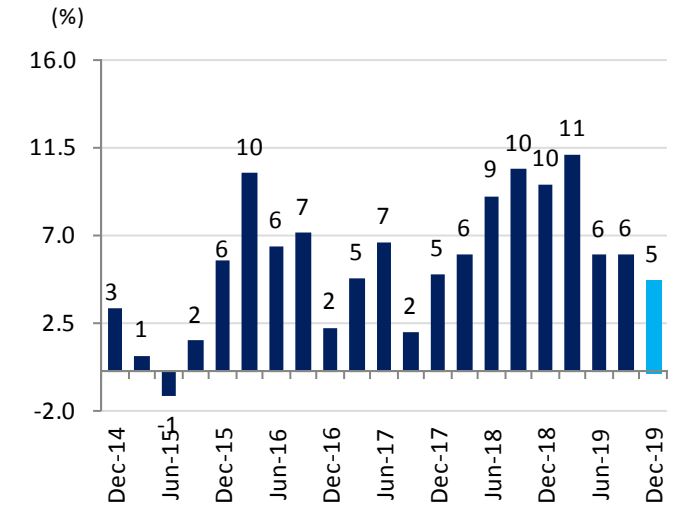
Year to March (Rs mn)	3QFY20	3QFY19	YoY (bps)	2QFY20	QoQ (bps)	9MFY20	9MFY19	YoY (bps)
Cigarettes	70.7	70.1	60	72.2	(145)	71.2	73.2	(196)
FMCG	3.2	2.4	85	2.8	50	2.9	2.0	85
Hotels	15.8	13.3	247	4.1	1,173	8.4	7.7	69
Agribusiness	10.2	10.3	(14)	9.4	77	8.0	8.6	(66)
Paperboards, Paper & Packaging	21.5	21.5	(6)	22.7	(126)	21.9	21.7	22
<b>Total</b>	<b>35.1</b>	<b>34.7</b>	<b>42</b>	<b>34.4</b>	<b>69</b>	<b>33.7</b>	<b>33.7</b>	<b>5</b>

Source: Company, HDFC sec Inst Research

**7<sup>th</sup> consecutive quarter of positive volume growth. We model 3.5% volume growth in FY21E/22E**

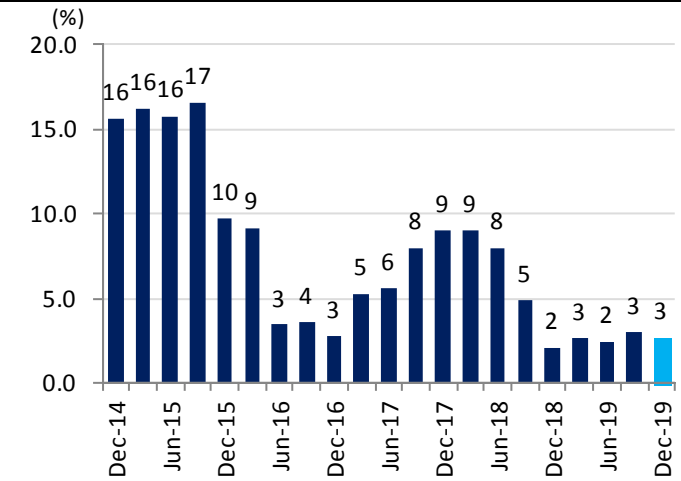
**Cigarette EBIT growth of 5.6% was below our estimate of 7.5%. We expect cig. EBIT to grow faster vs. revenue growth**

**Cigarette Value Growth**



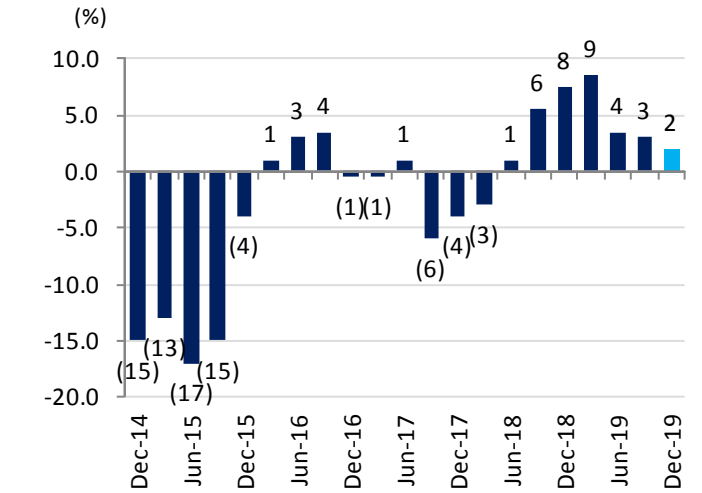
Source: Company, HDFC sec Inst Research

**Cigarette Price Growth**



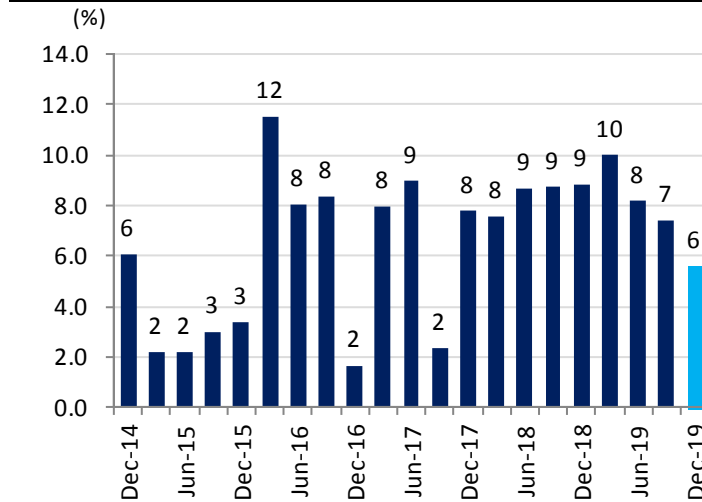
Source: Company, HDFC sec Inst Research

**Cigarette Volume Growth**



Source: Company, HDFC sec Inst Research

**Cigarette EBIT Growth**

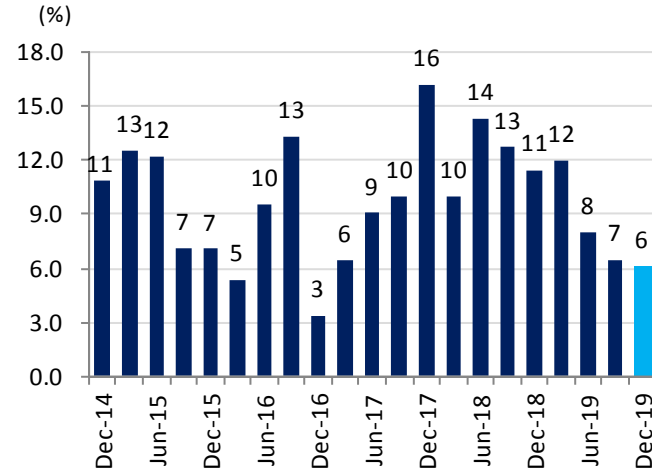


Source: Company, HDFC sec Inst Research

*ITC's FMCG business growth in the recent quarters is at par with HUL*

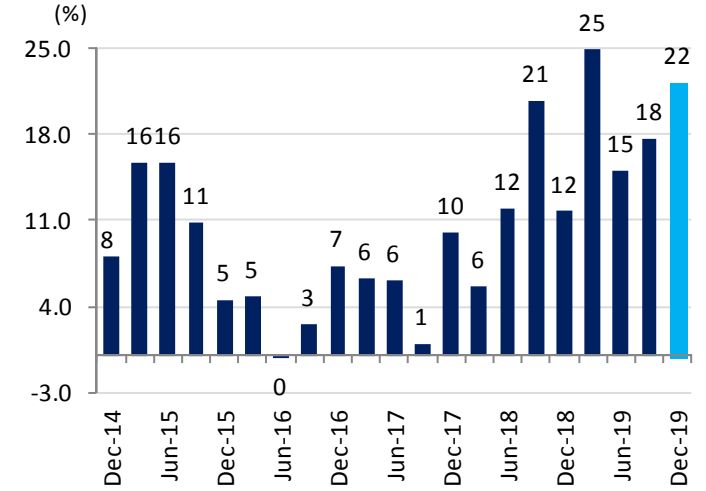
*Hotel business is on a strong momentum driven by higher occupancy rates and ARR*

**FMCG Revenue Growth**



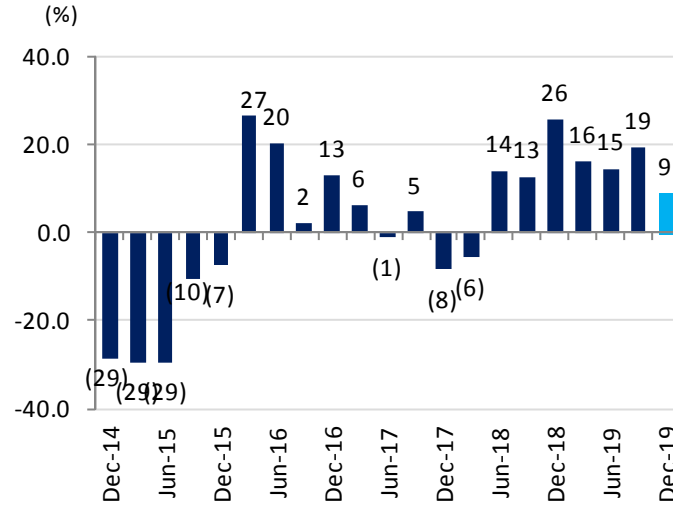
Source: Company, HDFC sec Inst Research

**Hotel Revenue Growth**



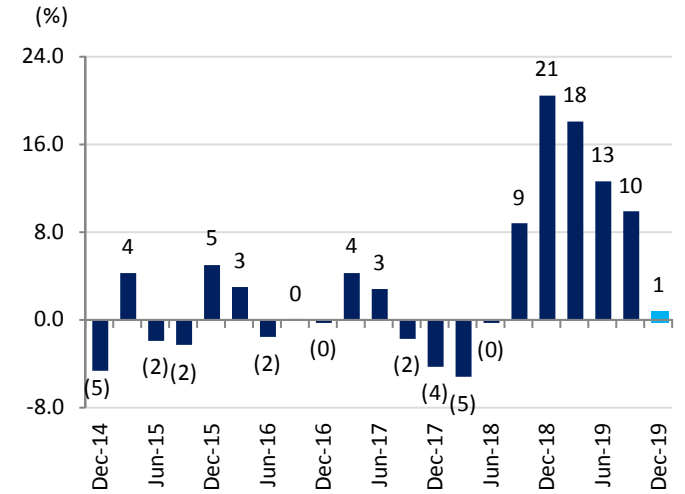
Source: Company, HDFC sec Inst Research

**Agri Revenue Growth**



Source: Company, HDFC sec Inst Research

**Paper Revenue Growth**



Source: Company, HDFC sec Inst Research

**FMCG segment mapping: ITC's addressable market offers a 13x opportunity headroom**

Brand	Current Presence	Possible Extension	Brand Position	Mkt Position	Est. Market Size (Rs mn)	Est. ITC Revenue at Consumer level (Rs mn)	Key competitors
<b>Food</b>							
Aashirvaad	<ul style="list-style-type: none"> <li>- Wheat</li> <li>- Ghee</li> <li>- Spices</li> <li>- Instant mixes</li> <li>- Read-to-eat</li> <li>- Rice</li> <li>- Milk, Curd, Paneer</li> <li>- Salt</li> </ul>	<ul style="list-style-type: none"> <li>- Pickles</li> <li>- Grains (white flour, semolina, gram flour)</li> <li>- Distribution expansion of new launches</li> </ul>	Mid	No. 1	150,000	45,000	<ul style="list-style-type: none"> <li>- Pillsbury Atta (General Mills)</li> <li>- Silver Coin (Sanghvi Group)</li> <li>- Mother's Recipe</li> </ul>
Sunfeast	<ul style="list-style-type: none"> <li>- Biscuits</li> <li>- Cookies</li> <li>- Cake</li> <li>- Beverage</li> <li>- Pasta</li> </ul>	<ul style="list-style-type: none"> <li>- Modern milk products</li> <li>- Rusk/Bread</li> <li>- Chocolates</li> <li>- Oats</li> <li>- Breakfast packaged food</li> </ul>	Mid to Premium	No.1 in premium biscuit segment	590,000	38,000	- Britannia, Parle, PriyaGold, Anmol
Bingo	<ul style="list-style-type: none"> <li>- Extruded snacks</li> <li>- Potato Chips</li> </ul>	<ul style="list-style-type: none"> <li>- Healthy variants in salty snacks</li> </ul>	Mid to Premium	No. 1	219,000	25,000	- Lays (Pepsi), Diamond (Prataap snacks), Too Yumm!, Haldiram
YIPpee	<ul style="list-style-type: none"> <li>- Noodles</li> <li>- Pasta</li> </ul>	<ul style="list-style-type: none"> <li>- Oats</li> </ul>	Mid	No. 2	153,000	11,000	- Maggi (Nestle), Top Ramen (Nissin)
Mint-o, Candyman, GumOn	<ul style="list-style-type: none"> <li>- Confectionery</li> </ul>	<ul style="list-style-type: none"> <li>- More variants</li> </ul>	Mid	Top 5	40,800	6,000	
B-Naturals	<ul style="list-style-type: none"> <li>- Juices</li> </ul>	<ul style="list-style-type: none"> <li>- More variants</li> <li>- Healthy supplements</li> </ul>	Mid to Premium	Emerging	20,000	4,800	- Real (Dabur), Tropicana (Pepsi)
Fabelle	<ul style="list-style-type: none"> <li>- Chocolate</li> </ul>	<ul style="list-style-type: none"> <li>- Mass premium</li> <li>- Eventually, capture full portfolio</li> </ul>	Super-premium	Emerging	80,000	150	- Cadbury (Mondelez), Nestle
Sunbean	<ul style="list-style-type: none"> <li>- Coffee paste</li> </ul>	<ul style="list-style-type: none"> <li>- Ready to drink</li> <li>- Distribution expansion</li> </ul>	Premium	Emerging	15,000	100	- Nescafe (Nestle), Bru (HUL)
ITC Master Chef	<ul style="list-style-type: none"> <li>- Ready-to-eat</li> <li>- Frozen foods (prawns)</li> <li>- Fresh vegetables and fruits</li> <li>- Spices</li> <li>- Masala</li> </ul>	<ul style="list-style-type: none"> <li>- Variants in frozen foods</li> <li>- Distribution expansion</li> </ul>	Mid to Premium	Emerging	4,000		

Brand	Current Presence	Possible Extension	Brand Position	Mkt Position	Est. Market Size (Rs mn)	Est. ITC Revenue at Consumer level (Rs mn)	Key competitors
<b>Personal Care</b>							
Fiama	- Shower Gel - Soap Bar - Talc	- Shampoo - Shaving Cream - Talc - Face wash	Premium	No. 2	20,000	3,600	- Nivea: leader with 20% share (Beiersdorf Global) - Palmolive - Dove
Vivel	- Soap Bar	-More variants	Mid	na			- Lux, Lifebuoy, Dove, Pears, Hamam (HUL) - Godrej No 1, Cinthol (GCPL)
Superia	- Soap Bar	-More variants	Mass	na	200,000	6,000	- Santoor (Wipro) - Dettol (RB)
Superia	- Shampoo	-More variants	Mass	na	60,000		
Engage	- Deos - Perfume - Pocket Perfume	- Face Wash - Talc - More variants	Mid to Premium	No. 2	30,000	3,300	- Fogg : market leader with 17% (Vini) - Wild Stone - Nivea - Park Avenue - Axe
Essenza Di Wills	- Perfume	- Face cream - Moisturiser - Deo	Super-premium	Emerging	20,000	na	- Fogg (Vini) - Skinn (Titan) - Park Avenue (Raymond)
Savlon	- Anti-septic liquid - Soaps - Handwash - Hand sanitizer	- Hand wash - Shaving Cream - Shower Gel - Disinfectant liquid	Mid	No. 2	10,000	2,000	- Dettol (RB)
Charmis	- Cold cream	- Moisturiser	Mid	na	na	na	- Nivea (Beiersdorf Global) - Pond's (HUL)
Dermafique	- Anti-aging	- More variants	Premium	Emerging	na	na	- Olay (P&G) - Lakme (HUL) - Nivea (BG)
Shower to Shower	- Talc	- Shower Gel - Soap Bar - Talc	Mid	na	4,000	240	- Himalaya - Dermi Cool (RB) - Boroplus (Emami) - Nycil (Kraft Heinz)
<b>Home Care</b>							
Nimyle	Floor Cleaner	- Kitchen cleaner - More Variants	Mid	Emerging	100,000	na	- Lizol (RB) - Domex (HUL) - Mr. Muscle (SC Johnson)



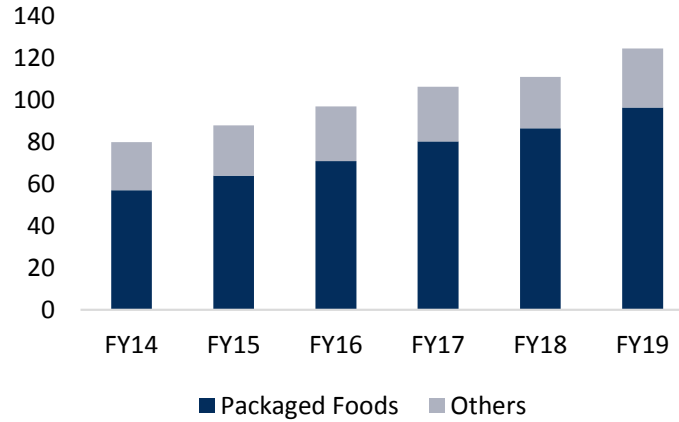
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<b>Others</b>							
Classmate Paperkraft	- Notebooks - Pen - Pencil - Geometric box - Art instruments	- More variants - Office stationery	Premium	No. 2	100,000	10,000	- Navneet - Luxor - BILT (Balrampur)
Wills Aim	Life Style	- Restructure business	Premium	na	na	7,185	- All leading mens formal wear brands
Ship Home Lites	Safety Matches	- Cigarette and gas stove lighters	Mid	No. 1	10,000	2,422	- Largely unorganised

**ITC's FMCG business is dominated by packaged foods (77% revenue mix vs. 71% in FY14)**

**Gross margins for FMCG business is at par with peers (40-45%). However, mid-single digit EBITDAM is owing to (1) Higher upfront brand investments and (2) Losses in retail business**

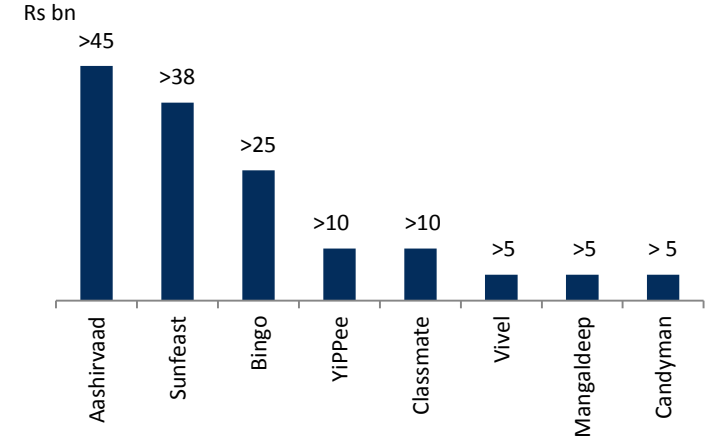
**EBIT margins are steadily expanding as brands gain critical scale and co has restructured retail biz**

**FMCG Revenue mix: Packaged food dominates**



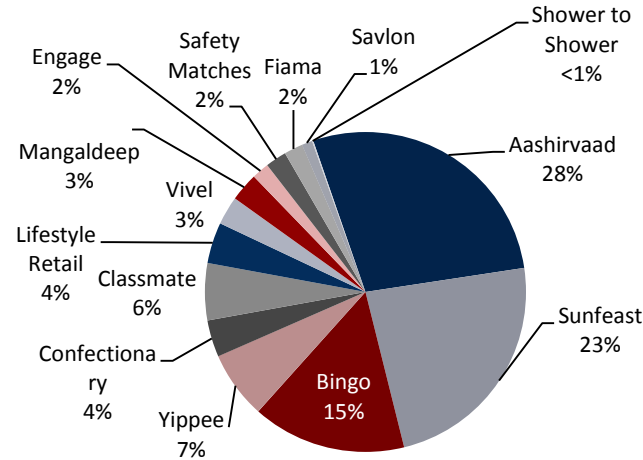
Source: Company, HDFC sec Inst Research

**Top brands in FMCG (size at consumer level)**



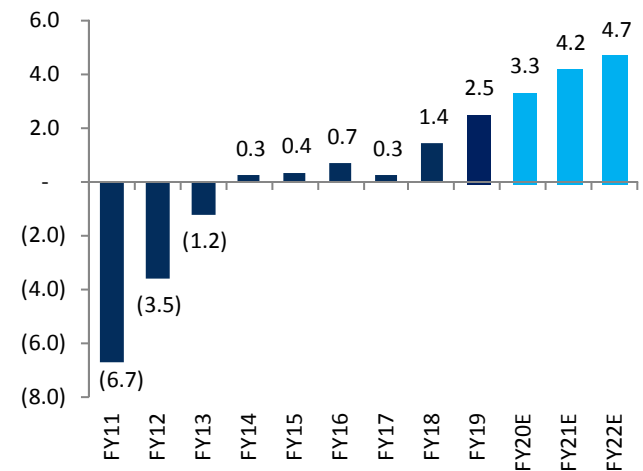
Source: Company, HDFC sec Inst Research

**FMCG revenue product mix**



Source: Company, HDFC sec Inst Research

**FMCG EBIT margins: ~9% swing over FY11-19**



Source: Company, HDFC sec Inst Research

### Assumptions

Particulars	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Cigarette</b>							
Revenue Gr (%)	6.2	(40.5)	4.9	10.3	5.5	6.6	6.6
Volume Gr (%)	(8.8)	1.4	(3.0)	5.6	2.6	3.5	3.5
Cig. Price Gr (%)	15.0	(41.8)	7.9	4.6	2.9	3.1	3.1
EBIT Gr (%)	5.0	6.5	6.6	9.1	6.9	7.2	7.0
<b>FMCG</b>							
Revenue Gr (%)	7.7	8.0	11.3	12.6	5.2	8.8	12.3
EBIT Margin (%)	0.7	0.3	1.4	2.5	3.2	4.1	4.6
<b>Hotel</b>							
Revenue Gr (%)	11.5	1.6	5.6	17.3	11.7	10.1	10.5
EBIT Gr (%)	13.4	99.3	26.0	27.1	23.9	16.4	14.4
EBIT Margin (%)	4.3	8.3	9.9	10.7	12.5	13.0	13.0
<b>Agri business</b>							
Revenue Gr (%)	0.2	(5.8)	(15.0)	16.9	10.7	10.4	10.4
EBIT Gr (%)	2.8	(2.6)	(6.3)	(8.5)	7.0	12.1	12.1
EBIT Margin (%)	12.5	11.0	10.5	8.3	7.8	7.9	8.1
<b>Paper &amp; Paper boards</b>							
Revenue Gr (%)	5.9	(0.8)	(0.7)	10.1	11.5	11.6	11.7
EBIT Gr (%)	(1.5)	6.4	7.9	18.9	9.6	13.4	12.3
EBIT Margin (%)	17.0	18.0	19.9	21.1	21.4	21.9	22.1
Gross Margin (%)	65.4	62.5	63.5	64.0	64.7	65.1	65.3
Employee (% of sales)	8.8	8.5	8.7	8.6	9.0	9.0	9.1
ASP (% of sales)	2.5	1.9	2.1	2.1	2.1	2.2	2.2
Distribution (% of sales)	2.2	2.0	2.1	2.4	2.3	2.4	2.4
Other Expenses (% of sales)	15.0	14.1	12.8	12.8	13.1	13.1	13.1
EBITDA Margin (%)	36.9	36.1	37.9	38.1	38.3	38.3	38.6
Tax Rate (%)	36.1	34.6	34.0	33.0	24.0	25.2	25.2

Source: Company, HDFC sec Inst Research

**Based on our assumptions, implied 5 year historical valuations for ITC's cig business ranges between 15-20x EV/EBITDA**

**We believe FMCG business has witnessed a re-rating over the years owing to higher scale and margin expansion**

**Re-rating in hotels is led by favourable industry dynamics (higher ARR and occupancy rate)**

**Re-rating in paper is led by recovery in volume growth in**

**FMCG industry. Co has also expanded margins owing to richer product mix (focus on value added)**

### Valuation table

Segments (Rs bn)		FY15	FY16	FY17	FY18	FY19
Cigarette	EBITDA	103	115	121	128	136
	EV/EBITDA (x)	20.1	15.2	16.7	16.6	16.3
	EV (1Yr Fwd)	2,072	1,748	2,019	2,123	2,215
	Per share	185	160	183	194	203
	Rev Gr (%)	9%	4%	5%	5%	10%
	Vol Gr (%)	-8.8%	-8.8%	1.4%	-3.0%	5.6%
	EBIT Gr (%)	12%	5%	6%	7%	9%
FMCG	Revenue	90	97	105	113	125
	EV/Revenue (x)	4.1	4.3	4.5	4.8	5.0
	EV (1Yr Fwd)	400	454	514	595	657
	Per share	33	38	42	49	54
	Rev Gr (%)	11%	8%	8%	11%	13%
	EBIT Marg (%)	0.4%	0.7%	0.3%	1.4%	2.5%
	EBIT Gr (%)	56%	107%	-60%	484%	135%
Hotel	EBITDA	3	2	2	3	3
	EV/EBITDA (x)	13.7	15.0	16.5	18.2	20.0
	EV (1Yr Fwd)	33	34	47	62	79
	Per share	3	3	4	5	6
Agri	EBITDA	9	10	10	10	9
	EV/EBITDA (x)	8	8	8	8	8
	EV (1Yr Fwd)	76	78	78	74	68
	Per share	6	6	6	6	6
Paper	EBITDA	11	12	12	12	14
	EV/EBITDA (x)	8.2	8.6	9.1	9.5	10.0
	EV (1Yr Fwd)	96	100	113	130	159
	Per share	8	8	9	11	13
EV		2,677	2,415	2,771	2,985	3,179
Cash+Invest		148	180	205	250	278
Mkt cap		2,825	2,595	2,976	3,234	3,457
Shares		12	12	12	12	12
CMP (Avg)		235	215	245	265	282

Source: Company, HDFC sec Inst Research

### SOTP Valuation

Segments	Criteria	Value
Cigarette	EBITDA (Rs mn)	167
	EV/EBITDA (x)	18
	EV (Rs mn)	3,010
FMCG	Revenue (Rs mn)	156
	EV/Revenue (x)	5
	EV (Rs mn)	780
Hotel	EBITDA (Rs mn)	5
	EV/EBITDA (x)	20
	EV (Rs mn)	101
Agri	EBITDA (Rs mn)	10
	EV/EBITDA (x)	8
	EV (Rs mn)	80
Paper	EBITDA (Rs mn)	19
	EV/EBITDA (x)	10
	EV (Rs mn)	191
Total EV		4,161
Cash+Investment		360
Mkt Cap		4,521
<b>TP</b>		<b>360</b>

### Changes In Estimates

Estimate Change	FY20E			FY21E			FY22E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	509,734	512,127	(0.5)	552,640	558,835	(1.1)	604,325	613,439	(1.5)
EBITDA	195,110	196,409	(0.7)	211,874	215,247	(1.6)	233,041	238,021	(2.1)
APAT	157,911	158,072	(0.1)	167,920	169,655	(1.0)	183,879	186,147	(1.2)
EPS	12.9	12.9	(0.1)	13.7	13.8	(1.0)	15.0	15.2	(1.2)

### Peer Set Comparison

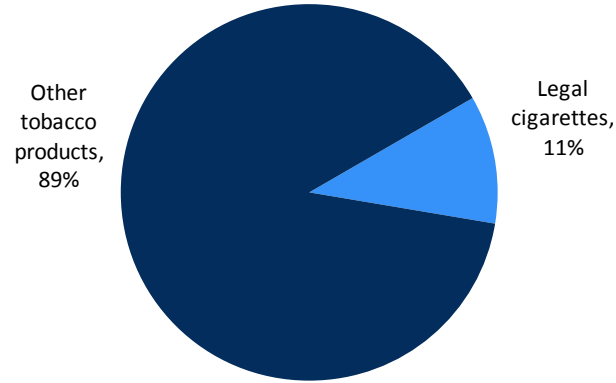
Company	MCap (Rs bn)	CMP (Rs)	Reco.	TP (Rs)	EPS (Rs)			P/E (x)			EV/EBITDA (x)			Core RoCE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
HUL	4,339	2,034	NEU	1,988	33.5	40.7	45.3	60.8	50.0	44.9	42.7	35.4	31.7	36.6	26.7	30.4
<b>ITC</b>	<b>2,890</b>	<b>235</b>	<b>BUY</b>	<b>360</b>	<b>12.9</b>	<b>13.7</b>	<b>15.0</b>	<b>18.3</b>	<b>17.2</b>	<b>15.7</b>	<b>12.9</b>	<b>11.7</b>	<b>10.4</b>	<b>45.8</b>	<b>47.9</b>	<b>50.5</b>
Nestle	1,487	15,548	NR	13,842	233.3	277.4	317.7	66.6	56.1	48.9	46.0	39.4	34.2	112.2	128.8	162.2
Dabur	873	496	BUY	510	8.9	11.3	13.1	55.6	43.7	37.8	43.2	36.5	31.2	52.4	59.3	65.5
Britannia	768	3,201	BUY	3,678	58.9	70.8	85.4	54.3	45.2	37.5	39.7	32.7	27.1	42.7	48.7	55.3
Marico	407	315	NEU	350	8.2	9.1	10.6	38.5	34.6	29.8	27.2	24.9	22.0	44.6	48.3	54.1
United Spirits	450	619	BUY	759	12.3	16.1	19.2	50.2	38.6	32.3	29.1	24.7	21.1	18.3	21.7	23.8
Colgate	362	1,329	NEU	1,392	30.4	35.5	41.3	43.7	37.4	32.2	27.8	24.3	21.1	70.8	81.0	94.9
Jubilant Food	249	1,890	BUY	2,178	31.6	40.0	49.8	59.9	47.2	38.0	36.9	29.2	23.7	33.5	24.2	31.7
Emami	138	295	BUY	463	12.5	14.1	15.9	23.5	21.0	18.5	17.0	15.2	13.4	25.6	30.6	38.0
Radico Khaitan	53	396	BUY	527	16.4	21.4	24.8	24.1	18.6	16.0	14.6	11.8	10.1	15.1	15.5	16.7

Source: Company, HDFC sec Inst Research

*High rates of tax on cigarettes provide attractive tax arbitrage opportunities to unscrupulous players, fanning the growth of illegal cigarette trade in the country*

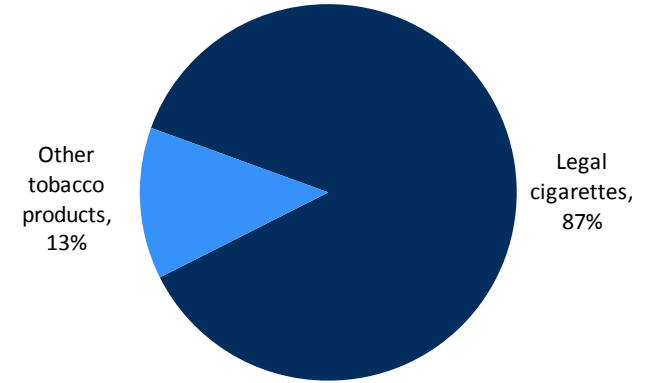
*The legitimate cigarette industry has declined steadily since 2010-11 at a compound annual rate of 4.8% p.a., illegal cigarette volumes in contrast have grown at about 5% p.a.*

**India's Tobacco Consumption**  
**Tobacco consumption share**



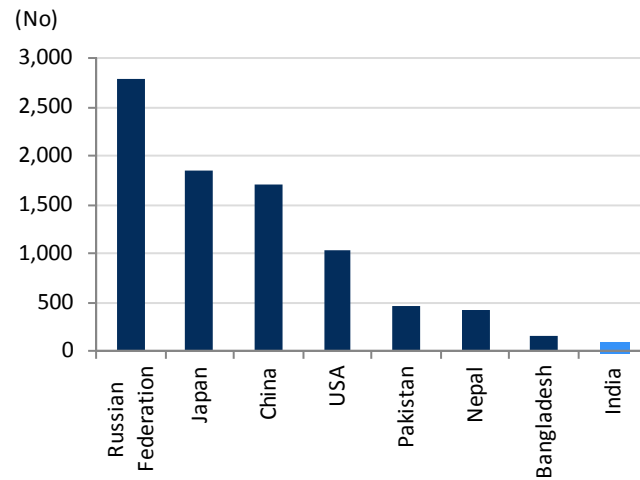
Source: Company, HDFC sec Inst Research

**Tax revenue share**



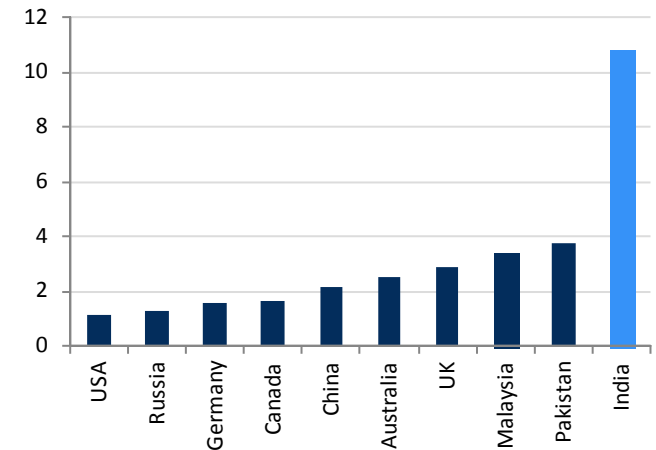
Source: Company, HDFC sec Inst Research

**Per capita consumption of Tobacco in India – Per annum**



Source: Company, HDFC sec Inst Research

**Affordability (% of per capita GDP required to purchase 100 packs of 20 cigarettes of most sold brand)**



Source: Company, HDFC sec Inst Research

## Income Statement

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>434,489</b>	<b>483,527</b>	<b>509,734</b>	<b>552,640</b>	<b>604,325</b>
<b>Growth (%)</b>	<b>4.5</b>	<b>11.3</b>	<b>5.4</b>	<b>8.4</b>	<b>9.4</b>
Material Expenses	158,555	174,203	179,936	192,871	209,701
Employee Expense	37,609	41,779	45,698	50,010	54,753
ASP Expense	9,041	9,946	10,704	12,158	13,295
Distribution Expense	9,041	11,765	11,724	13,263	14,504
Other Expenses	55,414	61,770	66,561	72,463	79,031
<b>EBITDA</b>	<b>164,830</b>	<b>184,064</b>	<b>195,110</b>	<b>211,874</b>	<b>233,041</b>
<b>EBITDA Growth (%)</b>	<b>6.8</b>	<b>11.7</b>	<b>6.0</b>	<b>8.6</b>	<b>10.0</b>
<b>EBITDA Margin</b>	<b>37.9</b>	<b>38.1</b>	<b>38.3</b>	<b>38.3</b>	<b>38.6</b>
Depreciation	12,363	13,966	15,359	16,914	18,609
<b>EBIT</b>	<b>152,467</b>	<b>170,098</b>	<b>179,751</b>	<b>194,960</b>	<b>214,432</b>
Other Income (Including EO)	18,319	21,738	28,085	29,476	31,305
Interest	899	454	236	241	246
<b>PBT</b>	<b>174,016</b>	<b>191,381</b>	<b>207,600</b>	<b>224,195</b>	<b>245,492</b>
Total Tax	59,164	63,139	49,824	56,430	61,790
<b>RPAT</b>	<b>114,927</b>	<b>128,359</b>	<b>157,911</b>	<b>167,920</b>	<b>183,879</b>
Exceptional Gain/(loss)	2,725	495	-	-	-
<b>Adjusted PAT</b>	<b>112,202</b>	<b>127,864</b>	<b>157,911</b>	<b>167,920</b>	<b>183,879</b>
<b>APAT Growth (%)</b>	<b>7.1</b>	<b>14.0</b>	<b>23.5</b>	<b>6.3</b>	<b>9.5</b>
<b>Adjusted EPS (Rs)</b>	<b>9.19</b>	<b>10.43</b>	<b>12.88</b>	<b>13.70</b>	<b>15.00</b>
<b>EPS Growth (%)</b>	<b>6.6</b>	<b>13.5</b>	<b>23.5</b>	<b>6.3</b>	<b>9.5</b>

Source: Company, HDFC sec Inst Research

## Balance Sheet

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	12,204	12,259	12,259	12,259	12,259
Reserves	512,897	565,114	638,188	701,336	773,803
<b>Total Shareholders' Funds</b>	<b>525,101</b>	<b>577,372</b>	<b>650,447</b>	<b>713,594</b>	<b>786,061</b>
Minority Interest	3,345	3,435	3,300	3,145	2,967
Long Term Debt	115	82	82	82	82
Short Term Debt	174	19	20	23	25
<b>Total Debt</b>	<b>289</b>	<b>100</b>	<b>102</b>	<b>104</b>	<b>106</b>
Net Deferred Taxes	18,749	19,927	21,248	22,674	24,215
Other non current liabilities	2,596	2,484	2,484	2,484	2,484
<b>TOTAL SOURCES OF FUNDS</b>	<b>550,080</b>	<b>603,318</b>	<b>677,580</b>	<b>742,002</b>	<b>815,833</b>
<b>APPLICATION OF FUNDS</b>					
<b>Net Block</b>	<b>163,907</b>	<b>191,530</b>	<b>207,481</b>	<b>236,567</b>	<b>248,658</b>
CWIP	77,353	63,618	55,366	48,764	43,483
Goodwill	2,314	2,314	2,314	2,314	2,314
LT Loans & Advances	21,014	16,960	18,349	19,852	21,481
<b>Total Non-current Assets</b>	<b>264,587</b>	<b>274,422</b>	<b>283,510</b>	<b>307,497</b>	<b>315,935</b>
Inventories	74,951	79,440	80,819	84,999	90,476
Debtors	26,823	40,353	30,074	32,606	35,655
Other Expenses	26,523	30,852	32,394	34,014	35,715
Cash & Equivalents	249,525	278,353	359,556	401,690	468,215
<b>Total Current Assets</b>	<b>377,821</b>	<b>428,997</b>	<b>502,844</b>	<b>553,309</b>	<b>630,061</b>
Creditors	34,962	35,096	37,512	40,669	44,473
Other Current Liabilities & Provns	57,367	65,006	71,261	78,135	85,690
<b>Total Current Liabilities</b>	<b>92,328</b>	<b>100,101</b>	<b>108,773</b>	<b>118,805</b>	<b>130,163</b>
<b>Net Current Assets</b>	<b>285,493</b>	<b>328,896</b>	<b>394,070</b>	<b>434,504</b>	<b>499,898</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>550,080</b>	<b>603,318</b>	<b>677,580</b>	<b>742,002</b>	<b>815,833</b>

Source: Company, HDFC sec Inst Research



**Cash Flow Statement**

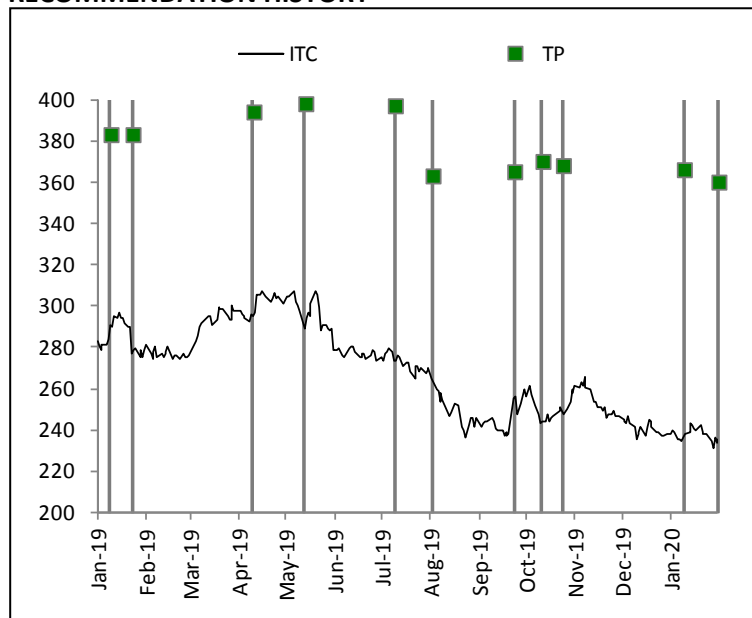
(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	174,091	191,381	207,600	224,195	245,492
Non-operating & EO Items	(3,379)	-	-	-	-
Interest Expenses	(8,748)	(12,674)	(13,942)	(15,072)	(16,292)
Depreciation	12,363	13,966	15,359	16,914	18,609
Working Capital Change	17,364	(10,521)	14,640	197	(498)
Tax Paid	(59,996)	(61,916)	(48,503)	(55,003)	(60,250)
<b>OPERATING CASH FLOW ( a )</b>	<b>131,694</b>	<b>120,237</b>	<b>175,154</b>	<b>171,231</b>	<b>187,062</b>
Capex	(27,985)	(27,855)	(23,058)	(39,398)	(25,418)
Free Cash Flow (FCF)	103,709	92,382	152,096	131,833	161,644
Investments	(50,814)	(29,906)	(15,000)	(15,000)	(15,000)
Non-operating Income	7,660	13,182	14,178	15,312	16,537
<b>INVESTING CASH FLOW ( b )</b>	<b>(71,139)</b>	<b>(44,579)</b>	<b>(23,880)</b>	<b>(39,086)</b>	<b>(23,881)</b>
Debt Issuance/(Repaid)	24	(188)	2	2	2
Interest Expenses	(486)	(454)	(236)	(241)	(246)
FCFE	103,247	91,740	151,861	131,594	161,400
Share Capital Issuance	9,128	54	0	(0)	0
Dividend	(70,884)	(75,647)	(84,836)	(104,772)	(111,413)
Others	8	-	-	-	-
<b>FINANCING CASH FLOW ( c )</b>	<b>(62,211)</b>	<b>(76,236)</b>	<b>(85,071)</b>	<b>(105,011)</b>	<b>(111,656)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(1,656)</b>	<b>(578)</b>	<b>66,203</b>	<b>27,134</b>	<b>51,525</b>
EO Items, Others	(978)	500	-	(0)	-
Closing Cash & Equivalents	28,996	27,918	94,121	121,256	172,780

Source: Company, HDFC sec Inst Research

**Key Ratios**

	FY18	FY19	FY20E	FY21E	FY22E
<b>PROFITABILITY (%)</b>					
GPM	63.5	64.0	64.7	65.1	65.3
EBITDA Margin	37.9	38.1	38.3	38.3	38.6
EBIT Margin	35.1	35.2	35.3	35.3	35.5
APAT Margin	25.8	26.4	31.0	30.4	30.4
RoE	22.7	23.2	25.7	24.6	24.5
RoIC (or Core RoCE)	37.2	39.2	45.8	47.9	50.5
RoCE	22.6	23.1	25.6	24.5	24.4
<b>EFFICIENCY</b>					
Tax Rate (%)	34.0	33.0	24.0	25.2	25.2
Fixed Asset Turnover (x)	0.6	0.7	0.7	0.7	0.7
Inventory (days)	63.0	60.0	57.9	56.1	54.6
Debtors (days)	22.5	30.5	21.5	21.5	21.5
Other Current Assets (days)	22.3	23.3	23.2	22.5	21.6
Payables (days)	29.4	26.5	26.9	26.9	26.9
Other Current Liab & Provns (days)	48.2	49.1	51.0	51.6	51.8
Cash Conversion Cycle (days)	<b>30.2</b>	<b>38.2</b>	<b>24.7</b>	<b>21.7</b>	<b>19.1</b>
Net D/E (x)	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)
Interest Coverage (x)	169.6	374.5	761.1	809.9	872.5
<b>PER SHARE DATA (Rs)</b>					
EPS	9.2	10.4	12.9	13.7	15.0
CEPS	10.2	11.6	14.1	15.1	16.5
Dividend	5.2	5.8	7.1	7.6	8.3
Book Value	43.0	47.1	53.1	58.2	64.1
<b>VALUATION</b>					
P/E (x)	25.6	22.5	18.3	17.2	15.7
P/BV (x)	5.5	5.0	4.4	4.0	3.7
EV/EBITDA (x)	15.9	14.1	12.9	11.7	10.4
EV/Revenues (x)	6.0	5.4	4.9	4.5	4.0
OCF/EV (%)	5.0	4.6	6.9	6.9	7.7
FCF/EV (%)	3.9	3.5	6.0	5.3	6.7
FCFE/Mkt Cap (%)	3.6	3.2	5.3	4.6	5.6
Dividend Yield (%)	2.2	2.4	3.0	3.2	3.5

Source: Company, HDFC sec Inst Research

**RECOMMENDATION HISTORY**


Date	CMP	Reco	Target
9-Jan-19	284	BUY	383
23-Jan-19	278	BUY	383
10-Apr-19	296	BUY	394
14-May-19	289	BUY	398
9-Jul-19	273	BUY	397
5-Aug-19	265	BUY	362
22-Sep-19	238	BUY	365
11-Oct-19	238	BUY	370
25-Oct-19	249	BUY	368
9-Jan-20	236	BUY	366
1-Feb-20	235	BUY	360

**Rating Definitions**

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period  
**NEUTRAL** : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period  
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